



# ANNUAL STATEMENT

For the Year Ended December 31, 2009  
of the Condition and Affairs of the

## Blue Care Network of Michigan

NAIC Group Code.....572, 572	NAIC Company Code..... 95610	Employer's ID Number..... 38-2359234
(Current Period) (Prior Period)		
Organized under the Laws of Michigan	State of Domicile or Port of Entry Michigan	Country of Domicile US
Licensed as Business Type.....Health Maintenance Organization	Is HMO Federally Qualified? Yes [ X ] No [ ]	
Incorporated/Organized..... May 6, 1981	Commenced Business..... May 13, 1981	
Statutory Home Office	20500 Civic Center Drive..... Southfield ..... MI ..... 48076 (Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	20500 Civic Center Drive..... Southfield ..... MI ..... 48076 (Street and Number) (City or Town, State and Zip Code)	248-799-6400 (Area Code) (Telephone Number)
Mail Address	20500 Civic Center Drive MC C455..... Southfield ..... MI ..... 48076 (Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	20500 Civic Center Drive..... Southfield ..... MI ..... 48076 (Street and Number) (City or Town, State and Zip Code)	248-455-3630 (Area Code) (Telephone Number)
Internet Web Site Address	www.mibcn.com	
Statutory Statement Contact	Penny Jean Wall (Name) PWall@bcbsm.com (E-Mail Address)	248-455-3630 (Area Code) (Telephone Number) (Extension) 248-455-3639 (Fax Number)

### OFFICERS

Name	Title	Name	Title
1. Jeanne Helen Carlson	President & Chief Executive Officer	2. Julie Concetta Swantek	Secretary
3. Susan Anne Kluge	Chief Financial Officer & Treasurer	4. Marc Darryl Keshishian MD #	Chief Medical Officer

### OTHER

Laurie Lowe Westfall	Chief Operating Officer
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### DIRECTORS OR TRUSTEES

Kedrick David Adkins	Julie Anne Angott	Mark Robert Bartlett	William Harrison Black
Jeanne Helen Carlson	James Robert Dietz	Shauna Ryder Diggs MD	Janet Louise Harden
DeMerritte Bonta Hiscoe MD	Valeriah Ann Holmon	Robert Paul Kelch MD	Karen Marie Knapp
Melvin Lyle Larsen #	Donald Glenn Oetman	Calvin Thomas Rapson	Kevin Lewis Seitz
Gregory Alan Sudderth	Diana Lynn Watson		

State of..... Michigan  
County of..... Oakland

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Jeanne Helen Carlson	(Signature) Julie Concetta Swantek	(Signature) Susan Anne Kluge
1. (Printed Name) President & Chief Executive Officer	2. (Printed Name) Secretary	3. (Printed Name) Chief Financial Officer & Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to before me	a. Is this an original filing?	Yes [ X ] No [ ]
This _____ day of _____ 2010	b. If no	1. State the amendment number _____
		2. Date filed _____
		3. Number of pages attached _____

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	199,629,073		199,629,073	184,785,366
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	9,801,238		9,801,238	3,474,818
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....(11,825,514), Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....552,070,123, Sch. DA).....	540,244,609		540,244,609	533,382,139
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	81,070,778		81,070,778	72,830,243
8. Receivables for securities.....			0	4,686,079
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	830,745,698	0	830,745,698	799,158,645
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	9,026,910		9,026,910	9,919,840
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	16,449,022	382,723	16,066,299	12,642,689
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....	2,656		2,656	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....	302,942		302,942	85,004
16.1 Current federal and foreign income tax recoverable and interest thereon.....	337,909		337,909	
16.2 Net deferred tax asset.....			0	
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	11,556,544	10,788,205	768,339	2,064,223
19. Furniture and equipment, including health care delivery assets (\$.....0).....	1,216,561	1,216,561	0	597,528
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	14,088,156		14,088,156	7,112,366
22. Health care (\$.....13,624,526) and other amounts receivable.....	13,705,621	81,095	13,624,526	9,482,328
23. Aggregate write-ins for other than invested assets.....	1,342,426	1,342,426	0	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	898,774,445	13,811,010	884,963,435	841,062,623
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	898,774,445	13,811,010	884,963,435	841,062,623

DETAILS OF WRITE-INS				
0901. ....			0	
0902. ....			0	
0903. ....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Prepaid expenses.....	1,201,662	1,201,662	0	
2302. Other Accounts Receivable.....	140,764	140,764	0	
2303. ....			0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	1,342,426	1,342,426	0	0

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....8,514,823 reinsurance ceded).....	249,121,222	8,743,579	257,864,801	285,572,911
2. Accrued medical incentive pool and bonus amounts.....	44,351,108		44,351,108	45,355,558
3. Unpaid claims adjustment expenses.....	6,914,026		6,914,026	6,279,210
4. Aggregate health policy reserves.....	2,404,844		2,404,844	3,481,492
5. Aggregate life policy reserves.....			.0	
6. Property/casualty unearned premium reserve.....			.0	
7. Aggregate health claim reserves.....			.0	
8. Premiums received in advance.....	34,047,140		34,047,140	28,353,493
9. General expenses due or accrued.....	19,276,238		19,276,238	35,037,296
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			.0	
10.2 Net deferred tax liability.....			.0	
11. Ceded reinsurance premiums payable.....	3,086,350		3,086,350	880,881
12. Amounts withheld or retained for the account of others.....	713,675		713,675	912,136
13. Remittances and items not allocated.....	294		294	348
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			.0	
15. Amounts due to parent, subsidiaries and affiliates.....	98,599,275		98,599,275	18,830,716
16. Payable for securities.....			.0	9,658,328
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			.0	
18. Reinsurance in unauthorized companies.....			.0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			.0	
20. Liability for amounts held under uninsured plans.....			.0	276,308
21. Aggregate write-ins for other liabilities (including \$.....311,599 current).....	1,094,451	.0	1,094,451	69,684,123
22. Total liabilities (Lines 1 to 21).....	459,608,623	8,743,579	468,352,202	504,322,800
23. Aggregate write-ins for special surplus funds.....	XXX	XXX	.0	.0
24. Common capital stock.....	XXX	XXX	10,000	10,000
25. Preferred capital stock.....	XXX	XXX		
26. Gross paid in and contributed surplus.....	XXX	XXX	15,643,045	15,643,045
27. Surplus notes.....	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	.0	.0
29. Unassigned funds (surplus).....	XXX	XXX	400,958,188	321,086,778
30. Less treasury stock at cost:				
30.1 .....0.000 shares common (value included in Line 24 \$.....0).....	XXX	XXX		
30.2 .....0.000 shares preferred (value included in Line 25 \$.....0).....	XXX	XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	XXX	XXX	416,611,233	336,739,823
32. Total liabilities, capital and surplus (Lines 22 and 31).....	XXX	XXX	884,963,435	841,062,623

DETAILS OF WRITE-INS

2101. Accrued Post Retirement Benefits.....			.0	51,816,217
2102. Accrued Pension.....			.0	14,862,910
2103. Employee Health Insurance accrued payable.....	161,046		161,046	2,230,781
2198. Summary of remaining write-ins for Line 21 from overflow page.....	933,405	.0	933,405	774,215
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	1,094,451	.0	1,094,451	69,684,123
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	.0	.0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	.0	.0
2801. ....	XXX	XXX		
2802. ....	XXX	XXX		
2803. ....	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	XXX	XXX	.0	.0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	XXX	XXX	.0	.0

Blue Care Network of Michigan  
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX.....	6,367,506.....	6,700,008.....
2. Net premium income (including \$.....0 non-health premium income).....	XXX.....	2,208,250,621.....	2,138,055,960.....
3. Change in unearned premium reserves and reserve for rate credits.....	XXX.....	1,076,648.....	2,235,696.....
4. Fee-for-service (net of \$.....7,670,711 medical expenses).....	XXX.....	(4,864,319).....	(3,374,019).....
5. Risk revenue.....	XXX.....	4,317,345.....	4,405,890.....
6. Aggregate write-ins for other health care related revenues.....	XXX.....	91,901.....	127,857.....
7. Aggregate write-ins for other non-health revenues.....	XXX.....	0.....	0.....
8. Total revenues (Lines 2 to 7).....	XXX.....	2,208,872,196.....	2,141,451,384.....
Hospital and Medical:			
9. Hospital/medical benefits.....	11,915,038.....	1,379,358,348.....	1,295,118,998.....
10. Other professional services.....	440,801.....	50,660,307.....	50,758,271.....
11. Outside referrals.....	77,420,241.....	77,420,241.....	63,209,644.....
12. Emergency room and out-of-area.....	1,829,648.....	122,020,926.....	128,464,888.....
13. Prescription drugs.....		295,176,913.....	285,676,680.....
14. Aggregate write-ins for other hospital and medical.....	0.....	1,783,410.....	2,621,110.....
15. Incentive pool, withhold adjustments and bonus amounts.....		39,206,553.....	34,751,955.....
16. Subtotal (Lines 9 to 15).....	91,605,728.....	1,965,626,698.....	1,860,601,546.....
Less:			
17. Net reinsurance recoveries.....		24,411,639.....	12,820,548.....
18. Total hospital and medical (Lines 16 minus 17).....	91,605,728.....	1,941,215,059.....	1,847,780,998.....
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....50,700,453 cost containment expenses.....		78,639,623.....	76,492,030.....
21. General administrative expenses.....		154,592,002.....	164,185,796.....
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....			
23. Total underwriting deductions (Lines 18 through 22).....	91,605,728.....	2,174,446,684.....	2,088,458,824.....
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX.....	34,425,512.....	52,992,560.....
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		31,867,649.....	32,599,963.....
26. Net realized capital gains or (losses) less capital gains tax of \$.....0.....		5,038,362.....	182,153.....
27. Net investment gains or (losses) (Lines 25 plus 26).....	0.....	36,906,011.....	32,782,116.....
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....33,606) (amount charged off \$.....673,321)].....		(639,715).....	(111,376).....
29. Aggregate write-ins for other income or expenses.....	0.....	(8,096,925).....	118,350.....
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX.....	62,594,883.....	85,781,650.....
31. Federal and foreign income taxes incurred.....	XXX.....	(174,426).....	191,383.....
32. Net income (loss) (Lines 30 minus 31).....	XXX.....	62,769,309.....	85,590,267.....

DETAILS OF WRITE-INS			
0601. Other revenue.....	XXX.....	77,786.....	98,436.....
0602. Pharmacy over the counter revenue.....	XXX.....	14,115.....	29,421.....
0603. ....	XXX.....		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX.....	0.....	0.....
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX.....	91,901.....	127,857.....
0701. ....	XXX.....		
0702. ....	XXX.....		
0703. ....	XXX.....		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX.....	0.....	0.....
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX.....	0.....	0.....
1401. Other Medical Expense.....		1,117,754.....	1,722,969.....
1402. Occupancy, Depreciation and Amortization.....		665,656.....	898,141.....
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0.....	0.....	0.....
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0.....	1,783,410.....	2,621,110.....
2901. One time adjustment for employee integration with parent.....		(8,096,925).....	
2902. Regulatory Fee.....			(2,650).....
2903. Other revenue.....			121,000.....
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0.....	0.....	0.....
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0.....	(8,096,925).....	118,350.....

STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT			1	2
			Current Year	Prior Year
33.	Capital and surplus prior reporting period.....		336,739,823	244,109,720
34.	Net income or (loss) from Line 32.....		62,769,309	85,590,267
35.	Change in valuation basis of aggregate policy and claim reserves.....			
36.	Change in net unrealized capital gains and (losses) less capital gains tax of \$..... 0.....		9,706,151	2,393,819
37.	Change in net unrealized foreign exchange capital gain or (loss).....			
38.	Change in net deferred income tax.....			
39.	Change in nonadmitted assets.....		7,395,950	4,646,017
40.	Change in unauthorized reinsurance.....			
41.	Change in treasury stock.....			
42.	Change in surplus notes.....			
43.	Cumulative effect of changes in accounting principles.....			
44.	Capital changes:			
44.1	Paid in.....			
44.2	Transferred from surplus (Stock Dividend).....			
44.3	Transferred to surplus.....			
45.	Surplus adjustments:			
45.1	Paid in.....			
45.2	Transferred to capital (Stock Dividend).....			
45.3	Transferred from capital.....			
46.	Dividends to stockholders.....			
47.	Aggregate write-ins for gains or (losses) in surplus.....		0	0
48.	Net change in capital and surplus (Lines 34 to 47).....		79,871,410	92,630,103
49.	Capital and surplus end of reporting period (Line 33 plus 48).....		416,611,233	336,739,823

DETAILS OF WRITE-INS		
4701.	.....	.....
4702.	.....	.....
4703.	.....	.....
4798.	Summary of remaining write-ins for Line 47 from overflow page.....	00
4799.	Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	00

Blue Care Network of Michigan  
CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	2,212,840,785	2,124,239,714
2. Net investment income.....	32,489,465	30,965,768
3. Miscellaneous income.....	(455,073)	1,159,728
4. Total (Lines 1 through 3).....	2,244,875,177	2,156,365,210
5. Benefit and loss related payments.....	1,969,927,619	1,871,052,650
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	326,178,425	246,754,981
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	163,483	191,383
10. Total (Lines 5 through 9).....	2,296,269,527	2,117,999,014
11. Net cash from operations (Line 4 minus Line 10).....	(51,394,350)	38,366,196
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	168,491,754	64,981,799
12.2 Stocks.....	361,043	1,217,466
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	1,398,876	(59,716)
12.7 Miscellaneous proceeds.....	4,686,079	9,658,328
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	174,937,752	75,797,877
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	179,374,042	104,658,117
13.2 Stocks.....	1,052,324	153,441
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....	9,658,328	4,686,079
13.7 Total investments acquired (Lines 13.1 to 13.6).....	190,084,694	109,497,637
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....	(15,146,942)	(33,699,760)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	73,403,762	12,734,331
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	73,403,762	12,734,331
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	6,862,470	17,400,767
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	533,382,139	515,981,372
19.2 End of year (Line 18 plus Line 19.1).....	540,244,609	533,382,139

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
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ANALYSIS OF OPERATION BY LINES OF BUSINESS

		1	2	3	4	5	6	7	8	9	10
		Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plans	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1.	Net premium income.....	2,208,250,621	1,738,640,926	44,233,980			74,065,494	351,310,221			
2.	Change in unearned premium reserves and reserve for rate credit.....	1,076,648	2,767				701,989	371,892			
3.	Fee-for-service (net of \$.....7,670,711 medical expenses).....	(4,864,319)								(4,864,319)	XXX
4.	Risk revenue.....	4,317,345	4,317,345								XXX
5.	Aggregate write-ins for other health care related revenues.....	91,901	0	0	0	0	0	0	0	91,901	XXX
6.	Aggregate write-ins for other non-health care related revenues.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7.	Total revenues (Lines 1 to 6).....	2,208,872,196	1,742,961,038	44,233,980	0	0	74,767,483	351,682,113	0	(4,772,418)	0
8.	Hospital/medical benefits.....	1,379,358,348	1,083,233,375	13,696,291			51,798,920	230,629,762			XXX
9.	Other professional services.....	50,660,307	38,003,153	1,479,615			1,817,265	9,360,274			XXX
10.	Outside referrals.....	77,420,241	61,231,475	918,632			2,928,016	12,342,118			XXX
11.	Emergency room and out-of-area.....	122,020,926	106,117,143	628,078			4,317,217	10,958,488			XXX
12.	Prescription drugs.....	295,176,913	217,814,752	18,101,387			10,415,640	48,845,134			XXX
13.	Aggregate write-ins for other hospital and medical.....	1,783,410	1,173,571	210,808	0	0	56,118	324,678	0	18,235	XXX
14.	Incentive pool, withhold adjustments and bonus amounts.....	39,206,553	35,837,604				1,713,711	1,655,238			XXX
15.	Subtotal (Lines 8 to 14).....	1,965,626,698	1,543,411,073	35,034,811	0	0	73,046,887	314,115,692	0	18,235	XXX
16.	Net reinsurance recoveries.....	24,411,639	19,427,795	-	-		833,375	4,150,469			XXX
17.	Total hospital and medical (Lines 15 minus 16).....	1,941,215,059	1,523,983,278	35,034,811	0	0	72,213,512	309,965,223	0	18,235	XXX
18.	Non-health claims (net).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19.	Claims adjustment expenses including \$.....50,700,453 cost containment expenses.....	78,639,623	67,258,895	1,583,449			3,186,340	6,610,939			
20.	General administrative expenses.....	154,592,002	130,096,136	3,257,720			5,580,603	15,394,775		262,768	
21.	Increase in reserves for accident and health contracts.....	0									XXX
22.	Increase in reserve for life contracts.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23.	Total underwriting deductions (Lines 17 to 22).....	2,174,446,684	1,721,338,309	39,875,980	0	0	80,980,455	331,970,937	0	281,003	0
24.	Net underwriting gain or (loss) (Line 7 minus Line 23).....	34,425,512	21,622,729	4,358,000	0	0	(6,212,972)	19,711,176	0	(5,053,421)	0
DETAILS OF WRITE-INS											
0501.	Other revenue.....	77,786								77,786	XXX
0502.	Pharmacy over the counter revenue.....	14,115								14,115	XXX
0503.	.....	0									XXX
0598.	Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
0599.	Total (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	91,901	0	0	0	0	0	0	0	91,901	XXX
0601.	.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698.	Summary of remaining write-ins for Line 6 from overflow page.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699.	Total (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.	Other Medical.....	1,117,754	737,483	120,430			35,172	206,434		18,235	XXX
1302.	Occupancy and Depreciation.....	665,656	436,088	90,378			20,946	118,244			XXX
1303.	.....	0									XXX
1398.	Summary of remaining write-ins for Line 13 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
1399.	Total (Lines 1301 thru 1303 plus 1398) (Line 13 above).....	1,783,410	1,173,571	210,808	0	0	56,118	324,678	0	18,235	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	1,762,117,736		23,476,810	1,738,640,926
2.	Medicare supplement.....	44,233,980			44,233,980
3.	Dental only.....				0
4.	Vision only.....				0
5.	Federal employees health benefits plan.....	75,072,555		1,007,061	74,065,494
6.	Title XVIII - Medicare.....	354,114,566		2,804,345	351,310,221
7.	Title XIX - Medicaid.....				0
8.	Other health.....				0
9.	Health subtotal (Lines 1 through 8).....	2,235,538,837	0	27,288,216	2,208,250,621
10.	Life.....				0
11.	Property/casualty.....				0
12.	Totals (Lines 9 to 11).....	2,235,538,837	0	27,288,216	2,208,250,621



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	1,954,701,596	1,538,665,965	35,989,365			71,494,812	308,533,219		18,235	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	20,931,414	18,356,740				860,943	1,713,731			
1.4 Net.....	1,933,770,182	1,520,309,225	35,989,365	0	0	70,633,869	306,819,488	0	18,235	0
2. Paid medical incentive pools and bonuses.....	40,211,003	38,216,510				1,757,615	236,878			
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	266,379,624	208,187,448	3,478,085			8,684,610	46,029,481			
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	8,514,823	5,545,174				188,803	2,780,846			
3.4 Net.....	257,864,801	202,642,274	3,478,085	0	0	8,495,807	43,248,635	0	0	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	44,351,108	40,711,494				1,007,812	2,631,802			
6. Net healthcare receivables (a).....	4,053,566	4,053,566								
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	290,607,509	235,226,379	4,432,641			8,846,245	42,102,244			
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	5,034,598	4,474,119				216,371	344,108			
8.4 Net.....	285,572,911	230,752,260	4,432,641	0	0	8,629,874	41,758,136	0	0	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	45,355,558	43,090,400				1,051,716	1,213,442			
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	1,926,420,145	1,507,573,468	35,034,809	0	0	71,333,177	312,460,456	0	18,235	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	24,411,639	19,427,795	0	0	0	833,375	4,150,469	0	0	0
12.4 Net.....	1,902,008,506	1,488,145,673	35,034,809	0	0	70,499,802	308,309,987	0	18,235	0
13. Incurred medical incentive pools and bonuses.....	39,206,553	35,837,604	0	0	0	1,713,711	1,655,238	0	0	0

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	37,507,292	29,474,992	505,899			1,235,743	6,290,658			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	37,507,292	29,474,992	505,899	0	0	1,235,743	6,290,658	0	0	0
2. Incurred but unreported:										
2.1 Direct.....	217,288,871	167,128,995	2,972,186			7,448,867	39,738,823			
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	8,514,823	5,545,174				188,803	2,780,846			
2.4 Net.....	208,774,048	161,583,821	2,972,186	0	0	7,260,064	36,957,977	0	0	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	11,583,461	11,583,461								
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	11,583,461	11,583,461	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	266,379,624	208,187,448	3,478,085	0	0	8,684,610	46,029,481	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	8,514,823	5,545,174	0	0	0	188,803	2,780,846	0	0	0
4.4 Net.....	257,864,801	202,642,274	3,478,085	0	0	8,495,807	43,248,635	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5  Claims Incurred in Prior Years (Columns 1 + 3)	6  Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1  On Claims Incurred Prior to January 1 of Current Year	2  On Claims Incurred During the Year	3  On Claims Unpaid December 31 of Prior Year	4  On Claims Incurred During the Year		
1. Comprehensive (hospital and medical).....	.....229,634,196	.....1,290,675,029	.....906,034	.....201,736,242	.....230,540,230	.....230,752,260
2. Medicare supplement.....	.....4,147,774	.....31,841,591	.....108,730	.....3,369,355	.....4,256,504	.....4,432,640
3. Dental only.....	.....	.....	.....	.....	.....0	.....
4. Vision only.....	.....	.....	.....	.....	.....0	.....
5. Federal employees health benefits plan.....	.....6,066,361	.....64,567,508	.....159,782	.....8,336,025	.....6,226,143	.....8,629,875
6. Title XVIII - Medicare.....	.....28,921,389	.....277,898,099	.....2,886,866	.....40,361,767	.....31,808,255	.....41,758,136
7. Title XIX - Medicaid.....	.....	.....	.....	.....	.....0	.....
8. Other health.....	.....	.....18,235	.....	.....	.....0	.....
9. Health subtotal (Lines 1 to 8).....	.....268,769,720	.....1,665,000,462	.....4,061,412	.....253,803,389	.....272,831,132	.....285,572,911
10. Healthcare receivables (a).....	.....	.....13,705,621	.....	.....	.....0	.....9,652,055
11. Other non-health.....	.....	.....	.....	.....	.....0	.....
12. Medical incentive pools and bonus amounts.....	.....37,992,754	.....2,218,249	.....556,547	.....43,794,561	.....38,549,301	.....45,355,558
13. Totals (Lines 9 - 10 + 11 + 12).....	.....306,762,474	.....1,653,513,090	.....4,617,959	.....297,597,950	.....311,380,433	.....321,276,414

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....225,551	.....231,329	.....231,443	.....231,532	.....231,459
2. 2005.....	.....1,347,415	.....1,579,456	.....1,580,790	.....1,580,862	.....1,580,771
3. 2006.....	.....XXX	.....1,477,904	.....1,737,407	.....1,737,569	.....1,737,554
4. 2007.....	.....XXX	.....XXX	.....1,555,242	.....1,860,731	.....1,862,861
5. 2008.....	.....XXX	.....XXX	.....XXX	.....1,553,539	.....1,858,350
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,667,218

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....248,167	.....232,492	.....231,692	.....231,532	.....231,459
2. 2005.....	.....1,617,507	.....1,596,073	.....1,583,045	.....1,580,928	.....1,580,771
3. 2006.....	.....XXX	.....1,780,894	.....1,754,062	.....1,737,908	.....1,737,564
4. 2007.....	.....XXX	.....XXX	.....1,890,284	.....1,871,839	.....1,863,186
5. 2008.....	.....XXX	.....XXX	.....XXX	.....1,872,955	.....1,862,634
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,964,817

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expense	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....	.....1,900,142	.....1,580,771	.....71,414	.....4.5	.....1,652,185	.....87.0	.....	.....	.....1,652,185	.....87.0
2. 2006.....	.....2,032,800	.....1,737,554	.....78,606	.....4.5	.....1,816,160	.....89.3	.....10	.....	.....1,816,170	.....89.3
3. 2007.....	.....2,149,589	.....1,862,861	.....82,323	.....4.4	.....1,945,184	.....90.5	.....325	.....4	.....1,945,513	.....90.5
4. 2008.....	.....2,140,292	.....1,858,350	.....80,577	.....4.3	.....1,938,927	.....90.6	.....4,283	.....971	.....1,944,181	.....90.8
5. 2009.....	.....2,209,327	.....1,667,218	.....66,961	.....4.0	.....1,734,179	.....78.5	.....297,599	.....5,939	.....2,037,717	.....92.2

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....212,311	.....217,891	.....218,048	.....218,116	.....218,043
2. 2005.....	.....1,239,309	.....1,454,135	.....1,455,191	.....1,455,263	.....1,455,185
3. 2006.....	.....XXX	.....1,322,048	.....1,554,753	.....1,554,680	.....1,554,661
4. 2007.....	.....XXX	.....XXX	.....1,369,051	.....1,647,232	.....1,649,862
5. 2008.....	.....XXX	.....XXX	.....XXX	.....1,257,204	.....1,520,486
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,292,783

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....233,980	.....218,980	.....218,295	.....218,116	.....218,043
2. 2005.....	.....1,490,572	.....1,469,775	.....1,457,412	.....1,455,328	.....1,455,185
3. 2006.....	.....XXX	.....1,593,626	.....1,569,927	.....1,555,016	.....1,554,668
4. 2007.....	.....XXX	.....XXX	.....1,670,063	.....1,657,187	.....1,649,879
5. 2008.....	.....XXX	.....XXX	.....XXX	.....1,520,691	.....1,521,880
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,534,720

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....	.....1,745,443	.....1,455,185	.....64,412	.....4.4	.....1,519,597	.....87.1	.....	.....	.....1,519,597	.....87.1
2. 2006.....	.....1,832,423	.....1,554,661	.....69,465	.....4.5	.....1,624,126	.....88.6	.....7	.....	.....1,624,133	.....88.6
3. 2007.....	.....1,898,915	.....1,649,862	.....72,632	.....4.4	.....1,722,494	.....90.7	.....17	.....4	.....1,722,515	.....90.7
4. 2008.....	.....1,771,336	.....1,520,486	.....70,493	.....4.6	.....1,590,979	.....89.8	.....1,393	.....772	.....1,593,144	.....89.9
5. 2009.....	.....1,738,644	.....1,292,783	.....57,339	.....4.4	.....1,350,122	.....77.7	.....241,937	.....4,687	.....1,596,746	.....91.8

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....7,256	.....7,306	.....7,256	.....7,264	.....7,264
2. 2005.....	.....63,240	.....72,418	.....72,661	.....72,657	.....72,648
3. 2006.....	.....XXX	.....65,567	.....76,867	.....76,893	.....76,872
4. 2007.....	.....XXX	.....XXX	.....66,432	.....74,067	.....74,247
5. 2008.....	.....XXX	.....XXX	.....XXX	.....31,711	.....35,709
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....31,842

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....7,387	.....7,326	.....7,256	.....7,264	.....7,264
2. 2005.....	.....72,651	.....72,777	.....72,665	.....72,658	.....72,648
3. 2006.....	.....XXX	.....77,401	.....76,994	.....76,896	.....76,872
4. 2007.....	.....XXX	.....XXX	.....75,850	.....74,347	.....74,250
5. 2008.....	.....XXX	.....XXX	.....XXX	.....35,860	.....35,815
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....35,211

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....	.....83,083	.....72,648	.....4,329	.....6.0	.....76,977	.....92.7	.....	.....	.....76,977	.....92.7
2. 2006.....	.....86,073	.....76,872	.....4,010	.....5.2	.....80,882	.....94.0	.....	.....	.....80,882	.....94.0
3. 2007.....	.....87,718	.....74,247	.....3,371	.....4.5	.....77,618	.....88.5	.....3	.....	.....77,621	.....88.5
4. 2008.....	.....42,371	.....35,709	.....1,648	.....4.6	.....37,357	.....88.2	.....106	.....18	.....37,481	.....88.5
5. 2009.....	.....44,234	.....31,842	.....1,266	.....4.0	.....33,108	.....74.8	.....3,369	.....104	.....36,581	.....82.7

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Dental**  
**NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Dental**  
**NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Dental**  
**NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Vision**  
**NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Vision**  
**NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Vision**  
**NONE**

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....5,962	.....6,110	.....6,117	.....6,130	.....6,130
2. 2005.....	.....44,836	.....52,873	.....52,908	.....52,912	.....52,908
3. 2006.....	.....XXX	.....61,983	.....71,291	.....71,301	.....71,295
4. 2007.....	.....XXX	.....XXX	.....57,857	.....63,563	.....63,561
5. 2008.....	.....XXX	.....XXX	.....XXX	.....56,500	.....64,239
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....64,664

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....6,778	.....6,164	.....6,119	.....6,130	.....6,130
2. 2005.....	.....54,254	.....53,491	.....52,938	.....52,912	.....52,908
3. 2006.....	.....XXX	.....74,399	.....71,893	.....71,301	.....71,297
4. 2007.....	.....XXX	.....XXX	.....66,899	.....63,745	.....63,567
5. 2008.....	.....XXX	.....XXX	.....XXX	.....65,999	.....64,403
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....73,996

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....	.....71,616	.....52,908	.....2,673	.....5.1	.....55,581	.....77.6	.....	.....	.....55,581	.....77.6
2. 2006.....	.....77,588	.....71,295	.....2,984	.....4.2	.....74,279	.....95.7	.....2	.....	.....74,281	.....95.7
3. 2007.....	.....71,597	.....63,561	.....2,999	.....4.7	.....66,560	.....93.0	.....6	.....	.....66,566	.....93.0
4. 2008.....	.....68,140	.....64,239	.....2,980	.....4.6	.....67,219	.....98.6	.....164	.....34	.....67,417	.....98.9
5. 2009.....	.....74,767	.....64,664	.....2,700	.....4.2	.....67,364	.....90.1	.....9,332	.....221	.....76,917	.....102.9

12.FE



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....22	.....22	.....22	.....22	.....22
2. 2005.....					
3. 2006.....	.....XXX	.....28,275	.....34,465	.....34,664	.....34,695
4. 2007.....	.....XXX	.....XXX	.....61,863	.....75,830	.....75,152
5. 2008.....	.....XXX	.....XXX	.....XXX	.....208,091	.....237,883
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....277,911

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	.....22	.....22	.....22	.....22	.....22
2. 2005.....					
3. 2006.....	.....XXX	.....35,437	.....35,217	.....34,664	.....34,696
4. 2007.....	.....XXX	.....XXX	.....77,433	.....76,521	.....75,451
5. 2008.....	.....XXX	.....XXX	.....XXX	.....250,372	.....240,503
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....320,872

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....				.....0.0	.....0	.....0.0			.....0	.....0.0
2. 2006.....	.....36,716	.....34,695	.....2,147	.....6.2	.....36,842	.....100.3	.....1		.....36,843	.....100.3
3. 2007.....	.....91,359	.....75,152	.....3,321	.....4.4	.....78,473	.....85.9	.....299		.....78,772	.....86.2
4. 2008.....	.....258,445	.....237,883	.....5,456	.....2.3	.....243,339	.....94.2	.....2,620	.....147	.....246,106	.....95.2
5. 2009.....	.....351,682	.....277,911	.....5,656	.....2.0	.....283,567	.....80.6	.....42,961	.....927	.....327,455	.....93.1

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	NONE				
2. 2005.....					
3. 2006.....		XXX			
4. 2007.....		XXX	XXX		
5. 2008.....		XXX	XXX	XXX	
6. 2009.....		XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....	NONE				
2. 2005.....					
3. 2006.....		XXX			
4. 2007.....		XXX	XXX		
5. 2008.....		XXX	XXX	XXX	
6. 2009.....		XXX	XXX	XXX	

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....				0.0	0	0.0			0	0.0
2. 2006.....				0.0	0	0.0			0	0.0
3. 2007.....				0.0	0	0.0			0	0.0
4. 2008.....				0.0	0	0.0			0	0.0
5. 2009.....				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....					
2. 2005.....	30	30	30	30	30
3. 2006.....	XXX	31	31	31	31
4. 2007.....	XXX	XXX	39	39	39
5. 2008.....	XXX	XXX	XXX	33	33
6. 2009.....	XXX	XXX	XXX	XXX	18

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior.....					
2. 2005.....	30	30	30	30	30
3. 2006.....	XXX	31	31	31	31
4. 2007.....	XXX	XXX	39	39	39
5. 2008.....	XXX	XXX	XXX	33	33
6. 2009.....	XXX	XXX	XXX	XXX	18

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2005.....		30		0.0	30	0.0			30	0.0
2. 2006.....		31		0.0	31	0.0			31	0.0
3. 2007.....		39		0.0	39	0.0			39	0.0
4. 2008.....		33		0.0	33	0.0			33	0.0
5. 2009.....		18		0.0	18	0.0			18	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE									
1. Unearned premium reserves.....	1,856,937	1,856,937							
2. Additional policy reserves (a).....	0								
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.00) for investment income.....	547,907					547,907			
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	2,404,844	1,856,937	0	0	0	547,907	0	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	2,404,844	1,856,937	0	0	0	547,907	0	0	0
CLAIM RESERVE									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501. ....	0								
0502. ....	0								
0503. ....	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101. ....	0								
1102. ....	0								
1103. ....	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

(a) Includes \$.00 premium deficiency reserve.

Blue Care Network of Michigan  
UNDERWRITING AND INVESTMENT EXHIBIT  
PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....0 for occupancy of own building).....	1,803,530	1,191,475	3,527,266		6,522,271
2. Salaries, wages and other benefits.....	30,369,323	15,578,831	47,986,308	175,392	94,109,854
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			50,180,967		50,180,967
4. Legal fees and expenses.....			105,638		105,638
5. Certifications and accreditation fees.....	32,202				32,202
6. Auditing, actuarial and other consulting services.....	595,391	189,568	2,984,375	36,442	3,805,776
7. Traveling expenses.....	370,297	88,034	1,040,056	2,781	1,501,168
8. Marketing and advertising.....	1,367	175	3,661,567		3,663,109
9. Postage, express and telephone.....	133,447	626,817	2,877,532	498	3,638,294
10. Printing and office supplies.....	788,127	337,180	3,994,539	819	5,120,665
11. Occupancy, depreciation and amortization.....	681,007	403,450	3,454,678	17,436	4,556,571
12. Equipment.....	166,078	108,923	321,606		596,607
13. Cost or depreciation of EDP equipment and software.....	3,123,229	1,316,439	12,632,813	4,816	17,077,297
14. Outsourced services including EDP, claims, and other services.....	10,417,230	7,151,179	16,164,837	53,805	33,787,051
15. Boards, bureaus and association fees.....	374,804	7,588	1,154,300	12,601	1,549,293
16. Insurance, except on real estate.....	9,577	6,404	267,664		283,645
17. Collection and bank service charges.....				336,458	336,458
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....			(1,922)		(1,922)
23.2 State premium taxes.....					0
23.3 Regulatory authority licenses and fees.....			455,014		455,014
23.4 Payroll taxes.....	1,745,964	929,034	3,395,534		6,070,532
23.5 Other (excluding federal income and real estate taxes).....					0
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	88,880	4,073	389,230	0	482,183
26. Total expenses incurred (Lines 1 to 25).....	50,700,453	27,939,170	154,592,002	641,048	(a) 233,872,673
27. Less expenses unpaid December 31, current year.....	161,085	6,752,941	19,276,238		26,190,264
28. Add expenses unpaid December 31, prior year.....	4,216,822	2,062,388	35,037,296		41,316,506
29. Amounts receivable relating to uninsured plans, prior year.....					0
30. Amounts receivable relating to uninsured plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	54,756,190	23,248,617	170,353,060	641,048	248,998,915

DETAILS OF WRITE-INS

2501. Other expenses.....	88,880	4,073	389,230		482,183
2502. ....					0
2503. ....					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	88,880	4,073	389,230	0	482,183

(a) Includes management fees of \$.....31,001,261 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....197,495	.....191,342
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....9,982,520	.....10,161,519
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....8,223	.....8,223
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....23,213,387	.....22,147,613
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....0	.....0
10. Total gross investment income.....	.....33,401,625	.....32,508,697
11. Investment expenses.....		(g).....641,048
12. Investment taxes, licenses and fees, excluding federal income taxes.....		(g).....
13. Interest expense.....		(h).....
14. Depreciation on real estate and other invested assets.....		(i).....0
15. Aggregate write-ins for deductions from investment income.....		.....0
16. Total deductions (Lines 11 through 15).....		.....641,048
17. Net investment income (Line 10 minus Line 16).....		.....31,867,649

DETAILS OF WRITE-INS

0901. ....	.....	.....
0902. ....	.....	.....
0903. ....	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0
1501. ....		
1502. ....		
1503. ....		
1598. Summary of remaining write-ins for Line 15 from overflow page.....		.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....		.....0

- (a) Includes \$.....1,118,005 accrual of discount less \$.....846,891 amortization of premium and less \$.....1,665,309 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....1,386,179 accrual of discount less \$.....11,807,092 amortization of premium and less \$.....4,988,263 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....	.....(52,434)	.....	.....(52,434)	.....	.....
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....0	.....	.....
1.2 Other bonds (unaffiliated).....	.....	.....	.....0	.....	.....
1.3 Bonds of affiliates.....	.....3,742,739	.....	.....3,742,739	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....0	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....(50,819)	.....	.....(50,819)	.....119,163	.....
2.21 Common stocks of affiliates.....	.....	.....	.....0	.....1,346,453	.....
3. Mortgage loans.....	.....	.....	.....0	.....	.....
4. Real estate.....	.....	.....	.....0	.....	.....
5. Contract loans.....	.....	.....	.....0	.....	.....
6. Cash, cash equivalents and short-term investments.....	.....1,398,876	.....	.....1,398,876	.....	.....
7. Derivative instruments.....	.....	.....	.....0	.....	.....
8. Other invested assets.....	.....	.....	.....0	.....8,240,535	.....
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....5,038,362	.....0	.....5,038,362	.....9,706,151	.....0

DETAILS OF WRITE-INS

0901. ....	.....	.....	.....0	.....	.....
0902. ....	.....	.....	.....0	.....	.....
0903. ....	.....	.....	.....0	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page...	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.....0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.....0
2.2 Common stocks.....		4,220,342	4,220,342
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.....0
3.2 Other than first liens.....			.....0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.....0
4.2 Properties held for the production of income.....			.....0
4.3 Properties held for sale.....			.....0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.....0
6. Contract loans.....			.....0
7. Other invested assets (Schedule BA).....			.....0
8. Receivables for securities.....			.....0
9. Aggregate write-ins for invested assets.....	0	0	.....0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	0	4,220,342	4,220,342
11. Title plants (for Title insurers only).....			.....0
12. Investment income due and accrued.....			.....0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	382,723	500,037	117,314
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.....0
13.3 Accrued retrospective premiums.....			.....0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.....0
14.2 Funds held by or deposited with reinsured companies.....			.....0
14.3 Other amounts receivable under reinsurance contracts.....			.....0
15. Amounts receivable relating to uninsured plans.....			.....0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.....0
16.2 Net deferred tax asset.....			.....0
17. Guaranty funds receivable or on deposit.....			.....0
18. Electronic data processing equipment and software.....	10,788,205	9,852,572	(935,633)
19. Furniture and equipment, including health care delivery assets.....	1,216,561	3,517,645	2,301,084
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.....0
21. Receivables from parent, subsidiaries and affiliates.....		14,965	14,965
22. Health care and other amounts receivable.....	81,095	1,799,630	1,718,535
23. Aggregate write-ins for other than invested assets.....	1,342,426	1,301,769	(40,657)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	13,811,010	21,206,960	7,395,950
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.....0
26. TOTALS (Lines 24 and 25).....	13,811,010	21,206,960	7,395,950

DETAILS OF WRITE-INS

0901. ....			.....0
0902. ....			.....0
0903. ....			.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	.....0
2301. Prepaid expenses.....	1,201,662	1,246,705	45,043
2302. Other Accounts Receivable.....	140,764	55,064	(85,700)
2303. ....			.....0
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	.....0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	1,342,426	1,301,769	(40,657)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....	.....554,666	.....538,941	.....530,418	.....527,316	.....525,226	.....6,367,506
2. Provider service organizations.....	.....	.....	.....	.....	.....	.....
3. Preferred provider organizations.....	.....	.....	.....	.....	.....	.....
4. Point of service.....	.....	.....	.....	.....	.....	.....
5. Indemnity only.....	.....	.....	.....	.....	.....	.....
6. Aggregate write-ins for other lines of business.....	.....0	.....0	.....0	.....0	.....0	.....0
7. Total.....	.....554,666	.....538,941	.....530,418	.....527,316	.....525,226	.....6,367,506

DETAILS OF WRITE-INS

0601. ....	.....	.....	.....	.....	.....	.....
0602. ....	.....	.....	.....	.....	.....	.....
0603. ....	.....	.....	.....	.....	.....	.....
0698. Summary of remaining write-ins for Line 6 from overflow page.....	.....0	.....0	.....0	.....0	.....0	.....0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	.....0	.....0	.....0	.....0	.....0	.....0



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Blue Care Network of Michigan (BCN) are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Regulation (OFIR).

OFIR recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by OFIR. OFIR has adopted certain prescribed accounting practices that differ from those found in NAIC SAP.

A reconciliation of BCN's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Michigan is shown below:

	2009	2008
Net Income, Michigan basis	\$ 62,769,309	\$ 85,590,267
State Prescribed Practices:		
None	-	-
State Permitted Practices:		
None	-	-
Net Income, NAIC SAP basis	<u>\$ 62,769,309</u>	<u>\$ 85,590,267</u>
Statutory Capital and Surplus, Michigan basis	\$ 416,611,233	\$ 336,739,823
State Prescribed Practices:		
None	-	-
State Permitted Practices:		
None	-	-
Statutory Capital and Surplus, NAIC SAP basis	<u>\$ 416,611,233</u>	<u>\$ 336,739,823</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements, in conformity with Statutory Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

BCN uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
- (3) Common Stocks are stated at fair value.
- (4) Preferred Stocks – NOT APPLICABLE

- (5) Mortgage loans on real estate – NOT APPLICABLE
- (6) BCN loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Effective September 30, 2009 with the implementation of Statement of Statutory Accounting Principles No. 43 – Revised *Loan-backed and Structured Securities*, changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method.
- (7) BCN records its investment in certain affiliated grantor trusts, Blue Care Network Medical Malpractice Self-Insurance Trust (Malpractice Trust) and Blue Care Network Stop-Loss and Casualty Self-Insurance Trust (Stop-Loss Trust), as other invested assets using the adjusted audited GAAP equity method.

BCN records its investment in BCN Service Company (BCNSC), a wholly owned subsidiary, using the audited GAAP equity method.

BCN records its investment in BlueCaid of Michigan (BlueCaid), a wholly owned subsidiary, using the audited Statutory equity method.

For the investments in Malpractice Trust, Stop-Loss Trust, BCNSC, and BlueCaid, BCN reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

- (8) Investments in joint ventures, partnerships and limited liability companies – NOT APPLICABLE
- (9) Derivatives – NOT APPLICABLE
- (10) Investment income in premium deficiency calculation – NOT APPLICABLE
- (11) Claims Unpaid – The claims unpaid liability for incurred but unpaid and unreported hospital and medical claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCN. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise. BCN has reinsured certain of its claims liabilities through an affiliated self-insurance trust. Processing expense related to claims is accrued based on an estimate of expenses to process such claims.
- (12) At December 31, 2009, BCN had no change in its capitalization policy from the prior period.
- (13) Pharmaceutical rebate receivables are estimated based on historical rebate trends and membership.

- 2. Accounting Changes and Corrections of Errors – NOT APPLICABLE
- 3. Business Combinations and Goodwill – NOT APPLICABLE
- 4. Discontinued Operations – NOT APPLICABLE
- 5. Investments
  - A. Mortgage Loans, including Mezzanine Real Estate Loans – NOT APPLICABLE
  - B. Debt Restructuring – NOT APPLICABLE
  - C. Reverse Mortgages – NOT APPLICABLE
  - D. Loan-Backed Securities –

(2) Prepayment assumptions are obtained from broker dealer survey values or internal estimates.

BCN does not have any other-than-temporary impaired loan-backed securities nor does BCN have any loan-backed securities in an unrealized loss position; therefore, all notes other than 5 D(2) are – NOT APPLICABLE.

E. Repurchase Agreements and/or Securities Lending Transactions – NOT APPLICABLE

F. Real Estate – NOT APPLICABLE

G. Investments in low-income housing tax credits (LIHTC) – NOT APPLICABLE

6. Joint Ventures, Partnerships and Limited Liability Companies – NOT APPLICABLE.

7. Investment Income

A. BCN non admits investment income due and accrued based on an assessment of collectability and whether the amounts are over 90 days past due.

B. BCN admitted all accrued investment income as of December 31, 2009 and 2008, respectively.

8. Derivative Instruments – NOT APPLICABLE

9. Income Taxes

A. Deferred Tax Assets or Deferred Tax Liabilities – NOT APPLICABLE.

B. Unrecognized Deferred Tax Liabilities – NOT APPLICABLE

C. Components of income tax incurred - BCN has been recognized by the Internal Revenue Service under Internal Revenue Code Section 501(c)(4) as an organization exempt from tax under Section 501(a). In 2009 and 2008, BCN recorded a \$174,426 tax benefit and \$191,383 tax expense, respectively on unrelated business income. There are no deferred income tax assets or deferred income tax liabilities, no investment tax credits, and no loss carry forward.

D. Significant book to tax adjustments – NOT APPLICABLE

E. Loss carry forwards, credit carry forwards - NOT APPLICABLE

F. Consolidated tax filing – NOT APPLICABLE

10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

A. On a routine basis, BCN conducts business transactions with its parent, Blue Cross Blue Shield of Michigan (BCBSM) and affiliates: Blue Care of Michigan (BCMI), a subsidiary of BCBSM; Malpractice Trust; Stop-Loss Trust; Accident Fund Insurance Company of America (AFICA), a subsidiary of BCBSM; BCBSM Foundation, a subsidiary of BCMI; BCNSC; BlueCaid; and Health Care Exchange, LTD, d/b/a DenteMax (DenteMax), a former subsidiary of BCBSM which was sold in 2009.

B. Transactions with BCBSM include payments for health benefit coverage; processing and payment of certain claims and capitation; underpayments and/or overpayments due to and from hospitals; management, administrative and professional services; building rent; purchased services including agent fees. Transactions with affiliates include funds collected upon another's behalf; capitation payments; management, administrative and professional services; worker's compensation coverage; malpractice liability coverage; insolvency coverage and reduced deductibles for property, general liability, automobile and fidelity .

Administrative support fees paid to affiliates were allocated to the statutory administrative expense categories of cost containment, other claims adjustment, general administrative and investment expenses, based on the affiliate's statutory administrative expense categories. These statutory administrative

expense categories were further allocated to detailed expense accounts based on the affiliate's expense detail.

- C. For the years ended December 31, 2009 and 2008, respectively, \$1,069,479,575 and \$772,280,371, were billed from the parent, subsidiaries, and affiliates for the operating activities detailed above, \$59,320,267 and \$50,713,820 were billed to parent, subsidiaries, and affiliates, with the majority of the transactions related to the parent BCBCM.
- D. Except for reinsurance ceded and ceded reinsurance premiums payable, all related party receivable and payable balances are classified as either amounts due from or to parent, subsidiaries and affiliates or claims unpaid.

At December 31, 2009 and 2008, respectively, BCN had \$14,088,156 and \$7,112,366 in related party receivables, and \$157,859,315 and \$82,339,412 in related party payables, with the majority of the transactions related to the parent BCBCM.

As detailed in Note 12, BCN has a long-term postretirement obligation transfer agreement with BCBSM.

- E. Affiliate Guarantees – NOT APPLICABLE
- F. BCN has agreements with its parent and affiliates under which both or either parties may provide services to each other. The agreements provide for monthly payments and a year-end settlement based on actual cost of services performed.
- G. BCN; BCNSC; BlueCaid; BCBSM; BCMI; BCBSM Foundation; LifeSecure Insurance Company, an affiliate of BCBSM; Accident Fund Holdings, Inc., the parent of AFICA; and CWI Holdings, Inc., a subsidiary of AFICA; have some common officers and members on their respective governing boards.
- H. Ownership in upstream affiliate or parent – NOT APPLICABLE
- I. BCN performs the test of “significance of an investment to the reporting entity’s financial position and results of operations,” as required by SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A replacement of SSAP No. 88*. BCN’s carrying value of its investments in the Stop-Loss Trust, Malpractice Trust, BCNSC and BlueCaid does not exceed 10% of BCN’s total admitted assets.
- J. Investment impaired – NOT APPLICABLE
- K. Investment in a foreign insurance subsidiary – NOT APPLICABLE
- L. Investment in downstream noninsurance holding company – NOT APPLICABLE

11. Debt

- A. Debt and Holding Company Obligations – NOT APPLICABLE
- B. FHLB (Federal Home Loan Bank) Agreements
  - (1) BCN became a member of the Federal Home Loan Bank of Indianapolis (FHLBI) on December 10, 2009 in order to obtain short-term, long-term and line-of-credit borrowing privileges. As of December 31, 2009 BCN has not exercised any of these options. It is part of BCN’s strategy to utilize the future cash advances for operations, and any funds obtained from the FHLBI for use in general operations would be accounted for consistent with SSAP No. 15, *Debt and Holding Company Obligations* as borrowed money. The table below indicates the amount of FHLBI stock purchased, collateral

pledged, assets and liabilities related to the agreement with FHLBI:

	2009
(2) FHLBI stock purchased as part of the agreement	\$ 606,600
(3) Collateral pledged to the FHLBI	NOT APPLICABLE
(4) Borrowing capacity currently available	12,132,000
(5) Agreement assets and liabilities	NOT APPLICABLE

12. Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans

Effective January 1, 2009, all employees of BCN, except for employees working at BCN's health center facility, became employees of BCBSM and were assigned to BCN. As part of the employee transfer, BCBSM assumed the legal obligation for the pension and other postretirement benefits for the former BCN employees (assigned employees) and all retirees. BCN paid \$2,578,834 to BCBSM for the 2008 pension obligation. In exchange for assuming the unfunded postretirement obligation of \$72,152,782, the parties executed an intercompany transfer agreement, whereby BCN will repay the obligation assumed by BCBSM with annual installments over a 20 year term. BCN paid \$5,073,036 during 2009 to reduce this obligation.

Future minimum payments under the BCBSM postretirement transfer agreement as of December 31, 2009, are as follows:

2010	\$2,142,242
2011	3,607,639
2012	3,607,639
2013	3,607,639
2014	3,607,639
2015 and thereafter	<u>50,506,948</u>
Total	<u>\$67,079,746</u>

A. Defined Benefit Plan

Prior to January 1, 2009, substantially all employees of BCN, who met certain requirements of age and length of service, were covered by defined benefit retirement plans administered by BCBSM. BCN's policy was to fund accrued retirement costs, as determined by BCBSM's consulting actuaries, to the extent permitted by Internal Revenue Code. These benefits were subject to revision at the discretion of the Board of Directors for non-represented employees and subject to collective bargaining agreements for represented employees.

Prior to January 1, 2009, BCN provided certain postretirement health care benefits to substantially all employees that met certain age and length of service requirements under a plan that was administered by BCBSM. This plan was "pay-as-you-go" and as such, had no asset allocations. Benefits were funded as incurred. This was a non contributory plan for represented employees and contributions of \$30,841 had been made by non-represented retirees for 2008.

A summary of assets, obligations, and assumptions of the pension and other postretirement benefit plans at the plan's measurement date of September 30,

2008, and as allocated to BCN from BCBSM, are as follows at December 31, 2008:

	Pension Benefits	Postretirement Benefits
Change in benefit obligation:		
Benefits obligation — January 1, 2008	\$ 111,280,889	\$ 56,756,298
Service cost	6,464,333	3,035,826
Interest cost	6,857,950	3,430,197
Amendments	360,776	(3,216,219)
Actuarial loss (gain)	(25,486,374)	(11,368,685)
Benefits paid	<u>(6,474,850)</u>	<u>(3,094,939)</u>
Benefits obligation — December 31, 2008	<u>\$ 93,002,724</u>	<u>\$ 45,542,478</u>
Change in plan assets:		
Fair value of plan assets — January 1, 2008	\$ 113,507,400	\$
Actual return on plan assets	(20,924,262)	
Employer contribution	3,965,057	
Benefits paid	<u>(6,186,084)</u>	
Fair value of plan assets — December 31, 2008	<u>\$ 90,362,111</u>	<u>\$</u>
Funded Status:		
Funded status - underfunded	\$ (2,640,613)	\$(45,542,478)
Unamortized prior service cost	973,328	(6,958,396)
Unrecognized net (gain) loss	(13,211,147)	684,656
Additional liability	(12,931)	
Contribution between measurement date and fiscal year end	<u>28,453</u>	
Funded status as shown on the statement of admitted assets, liabilities, capital and surplus - statutory basis at December 31, 2008	<u>\$ (14,862,910)</u>	<u>\$(51,816,218)</u>
Elimination of pension and post retirement obligation on January 1, 2009	<u>\$ 14,862,910</u>	<u>\$ 51,816,218</u>
Net amount recognized at December 31, 2009	<u>\$ -</u>	<u>\$ -</u>

The accumulated benefit obligation for all defined benefit pension plans was \$85,741,445 at September 30, 2008.

	2008	
	Pension Benefits	Postretirement Benefits
Benefit obligation for non vested employees	\$ 755,066	\$ 12,589,997
Components of net periodic benefit cost:		
Service Cost	\$ 6,464,333	\$ 3,035,826
Interest Cost	6,857,950	3,430,197
Expected return on plan assets	(8,997,322)	
Amortization of unrecognized (gain) loss	(10,861)	374,755
Amount of prior service cost recognized	<u>102,090</u>	<u>(577,980)</u>
Total net periodic benefit cost	<u>\$ 4,416,190</u>	<u>\$ 6,262,798</u>

The weighted-average assumptions as of December 31, 2008 were as follows:



	2008	
	Pension Benefits	Postretirement Benefits
Discount rate	8.45 %	8.35 %
Rate of compensation increase	4.75 %	N/A
Expected long-term rate of return on plan assets	9.00 %	N/A

For 2008 measurement purposes, the health care trend rate on covered postretirement benefits was assumed to be 7.75% for 2008, ratably decreasing to 5.00% by 2015 and all years thereafter.

The defined benefit retirement plans weighted-average target asset allocation and actual asset allocation at December 31, 2008, by asset category were as follows:

Asset Category	Target	2008
Equity securities	70.0 %	62.0 %
Debt securities / Fixed Income	25.0 %	31.0 %
Other	<u>5.0 %</u>	<u>7.0 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

BCBSM had developed an asset allocation policy based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. This policy was long-term oriented and consistent with BCBSM’s risk posture. BCBSM used a mix of core and satellite managers to implement its asset allocation policy. BCBSM reviewed its asset mix on a periodic basis and reallocates its portfolio at any time there is a material deviation in the asset class as described in the allocation policy. The policy included a target allocation, as included in the table above, and a range of plus or minus 3 percent of the target established. Asset allocations were outside of the target range variances due to the fact that market value reductions on equity securities exceed those on debt securities in 2008. BCBSM rebalanced pension asset allocations as provided in the guidelines as market conditions allowed.

Since BCBSM assumed the legal obligation for BCN’s defined benefit pension plans, BCN does not expect to contribute to a defined benefit pension plan in 2010.

**Non-Qualified Plans** - Retirement benefits included in the above note 12 tables, were provided for a group of key assigned employees under non-qualified defined benefit pension plans administered by BCBSM. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the Internal Revenue Code. Benefits under the plans were unfunded and paid out of general assets of BCN.

**Deferred Compensation Plan** - A group of key assigned employees and members of BCN’s Board of Directors have a deferred compensation benefit plan administered by BCBSM. Under the plan, eligible participants could have elected to defer to a future period a portion of salary or director fees that were earned and normally payable as services are rendered. Elections to defer compensation must have been made prior to the end of the month for deferrals to become effective in the following month. Deferred amounts were unfunded and paid out of the general assets of BCN.

- B. **Defined Contribution Plans** — All assigned employees who had completed three months of continuous service could have elected to participate in savings plans administered by BCBSM, which were qualified under Section 401(k) of the Internal Revenue Code. Participating employees could have elected to contribute to the plans and BCN matched a portion of the employees’ contributions after one year of continuous service. BCN’s contributions were \$2,097,781 and \$2,323,934 in 2009 and 2008, respectively.
- C. Multi-employer Plans – NOT APPLICABLE.

**D. Consolidated/Holding Company Plans**

Beginning January 1, 2009, BCN assigned employees and all BCN retirees participate in qualified and non-qualified noncontributory defined benefit pension, qualified defined contribution and deferred compensation plans sponsored by BCBSM, the parent company. In addition, all BCN retirees participate in certain other postretirement benefits offered for retired employees through a plan sponsored by BCBSM. BCN has no legal obligation for benefits under these plans. BCBSM allocates amounts to BCN based on the specific attributes of the assigned employees determined by outside actuaries. For 2009, BCN's share of net expense for qualified and non-qualified pension plans and for other postretirement benefit plans was \$7,707,881 and \$6,291,396, respectively. Amounts due to BCBSM related to 2009 expenses were \$1,378,300 at December 31, 2009.

**E. Post employment Benefits and Compensated Absences – NOT APPLICABLE****F. Impact of Medicare Modernization Act on Postretirement Benefits – NOT APPLICABLE****13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations.**

- (1) BCN has 500 shares authorized, 100 shares issued and outstanding. All shares are one class of common stock and have a par value of \$100 per share.
- (2) Preferred stock – NOT APPLICABLE.
- (3) BCN's Articles of Incorporation do not allow dividends.
- (4) Dividends Paid – NOT APPLICABLE
- (5) BCN's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholders be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made.
- (6) There were no restrictions placed on the BCN's surplus, including for whom the surplus is being held.
- (7) The total amount of advances to surplus not repaid – NOT APPLICABLE
- (8) The amount of stock held by BCN for special purposes – NOT APPLICABLE
- (9) Special surplus funds changes – NOT APPLICABLE
- (10) The portion of unassigned funds (surplus) represented by cumulative unrealized gains and losses is an unrealized gain of \$83,174,786 as of December 31, 2009.
- (11) Surplus Notes – NOT APPLICABLE
- (12) Impact of any restatement due to quasi-reorganization – NOT APPLICABLE
- (13) Effective dates of all quasi-reorganizations in the prior 10 years is/are – NOT APPLICABLE

**14. Contingencies**

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. Claims Related to Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits – NOT APPLICABLE
- E. All Other Contingencies



BCN is a party to litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on BCN's future statutory basis financial statements. BCN has no assets that it considers to be impaired.

15. Leases

A. Lessee Operating Lease

(1) Lessees leasing arrangements

BCN has entered into certain cancelable building leases with BCBSM. Rent expense paid to BCBSM in 2009 and 2008 was \$2,014,729 and \$2,048,441, respectively.

BCN also leases office buildings under operating leases with different unrelated parties. Rent expense under these leases was \$4,845,951 and \$5,084,411 in 2009 and 2008, respectively.

BCN has the option to purchase its headquarters building but has not exercised such option. The purchase price increases by 3% per year thereafter through the first 5 years of the lease. If the decision to purchase the building occurs after the first 5 years, BCN shall attempt to negotiate a reasonable price. BCN also has the option at the expiration of the lease at June 30, 2015, to extend the lease for 3 terms of 5 years each with prior written notice.

(2) Noncancelable leases

(a) At December 31, 2009, the minimum aggregate rental commitments are as follows:

Year Ending December 31	Operating Leases
2010	4,796,650
2011	4,931,630
2012	5,068,178
2013	5,206,351
2014	3,876,257
2015 and thereafter	<u>1,938,128</u>
Total	<u>\$ 25,817,194</u>

(b) Non-cancelable subleases – NOT APPLICABLE

(3) Sales-leaseback transactions – NOT APPLICABLE

B. Lessor Leases – NOT APPLICABLE

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk – NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

A. Transfers of Receivables Reported as Sales - NOT APPLICABLE

B. Transfer and Servicing of Financial Assets – NOT APPLICABLE

C. Wash Sales – NOT APPLICABLE

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans –

A. ASO Plans – NOT APPLICABLE

B. ASC Plans – NOT APPLICABLE

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contract

1. Revenue from BCN's Medicare Part D cost based reimbursement portion of the

contract for the years 2009 and 2008, respectively, consisted of \$1,788,635 and \$1,229,548 for reinsurance subsidy and \$1,195,040 and \$993,265 for low-income cost sharing subsidy.

2. As of December 31, 2009 and 2008, respectively, BCN had recorded receivables from the following payors whose account balances are greater than 10% of BCN's amounts receivable from uninsured accident and health plans or \$10,000:

	<u>2009</u>	<u>2008</u>
Centers for Medicare & Medicaid Services (CMS)	\$302,942	\$85,004

3. In connection with BCN's Medicare Part D cost based reimbursement portion of the contract, BCN has recorded allowances and reserves for adjustment of recorded revenues in the amount of \$0 and \$276,308 at December 31, 2009 and 2008, respectively.
4. BCN has made no adjustment to revenue resulting from audit of receivables related to revenues recorded in the prior period.
19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators – NOT APPLICABLE
20. Other Items
- A. Extraordinary Items – NOT APPLICABLE
- B. Troubled Debt Restructuring – NOT APPLICABLE
- C. Other Disclosures

**Statutory Deposit** - As a condition of maintaining BCN's certificate of authority with the State of Michigan, BCN is required to maintain a deposit in a segregated account of \$1,000,000, which is the maximum required for a Health Maintenance Organization. These funds can only be used by BCN at the direction of the Insurance Commissioner of the State of Michigan. The funds are invested in an exempt money market mutual fund. Interest on these funds accrues to BCN.

**Industry Concentration** - BCN primarily conducts business within the State of Michigan, and a significant portion of BCN's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from these customers approximate \$367,957 and \$1,136,144 at December 31, 2009 and 2008, respectively. BCN held no investments in these customers' equity securities, corporate bonds, commercial paper, and medium term notes at December 31, 2009 and 2008.

**Family Health Center** - BCN provided health care services by operating its own health facility until September, 30, 2009.

**National Health Care Reform** - Addressing the affordability and availability of health insurance, including reducing the number of uninsured, is a major initiative of President Obama and the U.S. Congress, and proposals that may address these issues are pending in the U.S. Congress. The proposals vary and include measures that would change the dynamics of the health care industry and/or the employer's role in the provision of benefits. Any comprehensive health care reform package enacted will likely be phased in over a number of years and would be subject to a broader regulatory process. Because of the unsettled nature of the proposals and the numerous steps required to implement them BCN remains uncertain as to the ultimate impact these changes will have on its business.

**Purchase Agreement** – On September 14, 2009, BCN and BCNSC entered into an agreement with Sparrow Health System (SHS), Physicians Health Plan of Mid-Michigan (PHP), a wholly owned subsidiary of SHS, and Physicians Health Plan of Mid-Michigan TPA, Inc. (TPA), a wholly owned subsidiary of PHP.

BCN has agreed to purchase certain contractual rights with respect to the PHP membership from PHP, all shares of common stock of Physicians Health Plan of Mid-Michigan – Family Care (PHP-FC) and PHPMM Insurance Company

(PHPMM Insurance) from PHP, all of the ownership interest in Physicians Health Network (PHN) from SHS, and certain assets of the TPA. Both PHP-FC and PHPMM Insurance are wholly owned subsidiaries of PHP, and PHN is a non-stock wholly owned subsidiary of SHS.

The purchase is subject to state regulatory approval and other customary conditions.

- D. Uncollectible Premiums and Premiums Receivable – NOT APPLICABLE
- E. Business Interruption Insurance Recoveries – NOT APPLICABLE
- F. State Transferable Tax Credits – NOT APPLICABLE
- G. Subprime-Mortgage-Related Risk Exposure – NOT APPLICABLE

21. Events Subsequent

Type I and Type II subsequent events have been considered through February 26, 2010 for the annual statement submitted on February 26, 2010. There are no subsequent events that require disclosure under SSAP No. 9R, *Subsequent Events (Revised)*.

22. Reinsurance

A. Ceded Reinsurance Report

BCN accounts for its transactions with the Stop-Loss Trust as if it were ceded reinsurance in compliance with the NAIC annual statement instructions and SSAP No. 61. Life, Deposit-Type and Accident and Health Reinsurance. The Stop-Loss Trust covers risks incurred in excess of a retention amount. BCN is responsible for inpatient hospital claims up to \$150,000 per member each year (the deductible) and has an agreement with the Stop-Loss Trust to cover the claims incurred over the deductible. The Stop-Loss Trust also provides insolvency coverage.

Section 1 – General Interrogatories

1. Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes ( ) No (X)

If yes, give full details.

2. Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes( ) No (X)

If yes, give full details.

Section 2 – Ceded Reinsurance Report – Part A

1. Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes ( ) No (X)

a.) If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where

necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. NOT APPLICABLE

b.) What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? NOT APPLICABLE

2. Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes ( ) No (X)

If yes, give full details.

**Section 3 – Ceded Reinsurance Report – Part B**

1. What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0

BCN participates in a plan of self-insurance.

2. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes ( ) No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? NOT APPLICABLE

**B. Uncollectible Reinsurance**

None

**C. Commutation of Ceded Reinsurance**

None

**23. Retrospectively Rated Contracts and Contracts Subject to Redetermination**

A. BCN estimates accrued redetermination premium adjustments and return premium adjustments for its group health insurance contracts subject to redetermination based on an examination of contract requirements in relation to the rates charged for similar sized subscriber groups and the status of past applicable audits.

BCN estimates accrued retrospective premium adjustments for its Medicare Advantage health insurance contracts based on the funds received from CMS for Medicare Part D designated as “Direct Subsidies”, “Low Income Subsidies (Premium Portion)”, “Beneficiary Premium (Standard Coverage Portion)”, “Part D Payment Demonstration” and “Risk Corridor Adjustment Payment”, as well as any subsequent adjustments made by CMS.

B. Accrued redetermination premium adjustments and return premium adjustments as well as retrospective premiums are recorded as an adjustment to earned premium.

C. The amount of net premiums written by BCN that are subject to redetermination or retrospective provisions was \$425,375,715 and \$326,283,823 for 2009 and 2008 respectively, representing approximately 19.26% and 15.26% of the total net

premiums written for commercial health for 2009 and 2008. No other premiums written by BCN are subject to redetermination or retrospective provisions.

24. Change in Incurred Losses and Loss Adjustment Expenses - Activity in the liabilities for unpaid claims and claims adjustment expenses at December 31, 2009 and 2008, respectively is summarized as follows:

	Annual Statement	
	2009	2008
BALANCE—January 1	\$ 291,852,121	\$ 292,189,620
Incurred related to:		
Current year	1,993,389,907	1,912,675,462
Prior year	(12,741,779)	(23,154,390)
Total incurred	1,980,648,128	1,889,521,072
Paid related to:		
Current year	1,727,907,866	1,628,103,273
Prior year	279,813,556	261,755,298
Total paid	2,007,721,422	1,889,858,571
BALANCE—December 31	\$ 264,778,827	\$ 291,852,121
Balance at December 31:		
Liability for claims unpaid	\$ 257,864,801	\$ 285,572,911
Liability for unpaid claims adjustment expenses	6,914,026	6,279,210
Total	\$ 264,778,827	\$ 291,852,121

Changes in actuarial estimates of claims unpaid reported as “incurred related to prior year” in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

25. Inter-company Pooling Arrangements – NOT APPLICABLE

26. Structured Settlements – NOT APPLICABLE

27. Health Care Receivables —

A. Pharmaceutical Rebate Receivables

Healthcare receivables include pharmacy rebates BCN receives from third party vendors. These rebates are calculated using estimates based on historical rebate trends and membership. Activity for the previous three years is summarized as follows:

Quarter	(1) Estimated Pharmacy Rebates as Reported on Financial Statements	(2) Pharmacy Rebates as Billed or Otherwise Confirmed	(3) Actual Rebates Received Within 90 days of Billing	(4) Actual Rebates Received Within 91 to 180 Days of Billing	(5) Actual Rebates Received More Than 180 Days After Billing
12/31/2009	\$ 4,580,183	\$ -	\$ 22,154	\$ -	\$ -
9/30/2009	4,594,059	-	277,562	-	-
6/30/2009	3,709,947	5,210,632	3,753,817	694,332	-
3/31/2009	3,780,355	5,078,246	3,112,839	1,866,683	7,455

	(1)	(2)	(3)	(4)	(5)
	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
Quarter					
12/31/2008	\$ 3,733,684	\$ 5,356,083	\$ 2,881,590	\$ 2,854,895	\$ 4,183
9/30/2008	3,786,802	4,979,729	2,836,579	2,133,503	137,194
6/30/2008	3,768,116	4,237,122	2,605,870	2,277,526	151,289
3/31/2008	3,786,417	4,339,595	871,585	3,476,296	332,323
12/31/2007	\$ 3,698,927	\$ 4,239,351	\$ 266,407	\$ 3,474,754	\$ 644,244
9/30/2007	3,538,522	3,815,324	2,191,016	1,817,566	633,528
6/30/2007	3,838,338	3,743,393	778,478	3,031,916	696,258
3/31/2007	4,025,229	3,452,321	213,215	3,269,317	1,054,390

B.Risk Sharing Receivables

BCN estimates the risk sharing receivable using actuarial estimates based on historical claims experience modified for current trends and benefits as well as using actual payments. BCN had risk sharing receivable of \$4,750,000, \$3,000,000, and \$10,071,237 at December 31, 2009, 2008, and 2007, respectively. Years ending

Calendar Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated and Reported in the Prior Year	Risk Sharing Receivable as Estimated and Reported in the Current Year	Risk Sharing Receivable Invoiced	Risk Sharing Receivable Not Invoiced	Actual Risk Sharing Amounts Collected in Year Invoiced	Actual Risk Sharing Amounts Collected First Year Subsequent	Actual Risk Sharing Amounts Collected Second Year Subsequent	Actual Risk Sharing Amounts Collected - All Other
2009	2009	\$ 3,000,000	\$ 6,500,000	\$ 9,500,000	\$ -	\$ 9,500,000	\$ -	\$ -	\$ -
	2010	XXX	\$ 4,750,000	XXX	\$ 4,750,000	XXX	XXX	XXX	XXX
2008	2008	\$10,071,237	\$ -	\$10,071,237	\$ -	\$10,071,237	\$ -	\$ -	\$ -
	2009	XXX	\$ 3,000,000	XXX	\$ 3,000,000	XXX	XXX	XXX	XXX
2007	2007	\$ 4,449,063	\$ -	\$ 6,467,742	\$ -	\$ 6,467,742	\$ -	\$ -	\$ -
	2008	XXX	\$10,071,237	XXX	\$10,071,237	XXX	XXX	XXX	XXX

December 31, 2009, 2008, and 2007 were not offset by any risk sharing payables.

28. Participating Policies – NOT APPLICABLE

29. Premium Deficiency Reserves – NOT APPLICABLE

30. Anticipated Salvage and Subrogation – NOT APPLICABLE

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes ☒ No ☐

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes ☒ No ☐ N/A ☐

1.3

State regulating?

Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes ☒ No ☐

2.2

If yes, date of change:

01/29/2009

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2007

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2007

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/30/2009

3.4

By what department or departments?

Dept. of Energy, Labor & Economic Growth - Office of Financial and Insurance Regulation

3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments?

Yes ☐ No ☐ N/A ☒

3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes ☒ No ☐ N/A ☐

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business?

Yes ☐ No ☒

4.12 renewals?

Yes ☐ No ☒

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business?

Yes ☒ No ☐

4.22 renewals?

Yes ☒ No ☐

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes ☐ No ☒

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Co. Code	State of Domicile

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes ☐ No ☒

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes ☐ No ☒

7.2

If yes,

7.21 State the percentage of foreign control

.....%.

7.22 State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1	2
Nationality	Type of Entity

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes ☐ No ☒

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes ☐ No ☒

8.4

If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Deloitte & Touche LLP

600 Renaissance Center, Suite 900

Detroit, Michigan 48243-1895

10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

Joseph Bojman, FSA MAAA Director of Corporate Actuarial Services, Blue Cross Blue Shield of Michigan

600 Lafayette Detroit Tower MC 0825 Detroit, Michigan 48226

11.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes ☐ No ☒

11.11 Name of real estate holding company

11.12 Number of parcels involved

.....

11.13 Total book/adjusted carrying value

.....

11.2

If yes, provide explanation.



GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

12.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

12.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [ ]

No [ ]

12.3

Have there been any changes made to any of the trust indentures during the year?

Yes [ ]

No [ ]

12.4

If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [ ]

No [ ]

N/A [ ]

13.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [ X ]

No [ ]

a.

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b.

Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c.

Compliance with applicable governmental laws, rules and regulations;

d.

The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e.

Accountability for adherence to the code.

13.11

If the response to 13.1 is No, please explain:

13.2

Has the code of ethics for senior managers been amended?

Yes [ X ]

No [ ]

13.21

If the response to 13.2 is Yes, provide information related to amendment(s).

The code of ethics were amended in order to revise the review process of reported conflicts.

13.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [ ]

No [ X ]

13.31

If the response to 13.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [ X ]

No [ ]

15.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [ X ]

No [ ]

16.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [ X ]

No [ ]

FINANCIAL

17.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes [ ]

No [ X ]

18.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11

To directors or other officers

\$.....0

18.12

To stockholders not officers

\$.....0

18.13

Trustees, supreme or grand (Fraternal only)

\$.....0

18.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21

To directors or other officers

\$.....0

18.22

To stockholders not officers

\$.....0

18.23

Trustees, supreme or grand (Fraternal only)

\$.....0

19.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [ ]

No [ X ]

19.2

If yes, state the amount thereof at December 31 of the current year:

19.21

Rented from others

.....

19.22

Borrowed from others

.....

19.23

Leased from others

.....

19.24

Other

.....

20.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [ ]

No [ X ]

20.2

If answer is yes:

20.21

Amount paid as losses or risk adjustment

.....

20.22

Amount paid as expenses

.....

20.23

Other amounts paid

.....

21.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [ X ]

No [ ]

21.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....7,626,235

INVESTMENT

22.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 22.3)?

Yes [ X ]

No [ ]

22.2

If no, give full and complete information relating thereto.

22.3

For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 16 where this information is also provided).  
BCN participates in a 3rd party custodial agreement.

22.4

Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [ X ]

No [ ]

N/A [ ]

22.5

If answer to 22.4 is yes, report amount of collateral.

\$.....0

22.6

If answer to 22.4 is no, report amount of collateral.

.....

23.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3)

Yes [ X ]

No [ ]



GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements

23.22 Subject to reverse repurchase agreements

23.23 Subject to dollar repurchase agreements

23.24 Subject to reverse dollar repurchase agreements

23.25 Pledged as collateral

23.26 Placed under option agreements

23.27 Letter stock or securities restricted as to sale

23.28 On deposit with state or other regulatory body

23.29 Other
- \$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....606,600

\$.....1,000,000

\$.....81,070,778

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount
Restricted as to sale	Federal Home Loan Bank Common Stock	606,600

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB?
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?  
If no, attach a description with this statement.
- Yes [ ]

No [ X ]

Yes [ ]

No [ ]

N/A [ X ]

- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?
- 25.2 If yes, state the amount thereof at December 31 of the current year:
- Yes [ ]

No [ X ]

.....

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?
- Yes [ X ]

No [ ]

26 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Bank and Trust Company	801 Pennsylvania, Kansas City, MO 64105
Fidelity Investments Institutional Operations Co.	100 Magellan Way KW2B Covington, KY 4105

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 26 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?
- Yes [ ]

No [ X ]

26 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

26.1 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
	Blue Cross Blue Shield of Michigan	600 E. Lafayette Blvd. Detroit, MI 48226

- 27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])?
- Yes [ ]

No [ X ]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj.Carrying Value
27.2999. TOTAL		0

27.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	.....751,699,196	.....760,806,415	.....9,107,219
28.2 Preferred stocks.....			.....0
28.3 Totals.....	.....751,699,196	.....760,806,415	.....9,107,219

28.4 Describe the sources or methods utilized in determining the fair values:  
Securities Valuation Office of the NAIC and State Street Bank is the source for fair values.

- 29.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D?
- 29.2 If yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source?
- 29.3 If no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D.
- Yes [ X ]

No [ ]

Yes [ X ]

No [ ]
- 30.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

30.2 If no, list exceptions:

Yes [ X ]

No [ ]
- 26.2

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

OTHER

- 31.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?
- 31.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.
- \$.....715,945

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	410,254
Amercia's Health Insurance Plans	273,489

- 32.1 Amount of payments for legal expenses, if any?
- 32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.
- \$.....105,638

1 Name	2 Amount Paid
Bodman, LLP	28,800
Jones Day	44,440

- 33.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?
- 33.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.
- \$.....0

1 Name	2 Amount Paid

Blue Care Network of Michigan  
 GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

- 1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [ X ]      No [   ]
- 1.2

If yes, indicate premium earned on U.S. business only

\$.....18,468
- 1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$.....0

1.31    Reason for excluding

- 1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$.....0
- 1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$.....13,579
- 1.6

Individual policies:

Most current three years:

1.61    Total premium earned

\$.....18,468

1.62    Total incurred claims

\$.....13,579

1.63    Number of covered lives

.....114

All years prior to most current three years:

1.64    Total premium earned

\$.....0

1.65    Total incurred claims

\$.....0

1.66    Number of covered lives

.....0
- 1.7

Group policies:

Most current three years:

1.71    Total premium earned

\$.....0

1.72    Total incurred claims

\$.....0

1.73    Number of covered lives

.....0

All years prior to most current three years:

1.74    Total premium earned

\$.....0

1.75    Total incurred claims

\$.....0

1.76    Number of covered lives

.....0

2.	Health test:		
		1	2
		Current Year	Prior Year
	2.1    Premium Numerator.....	.....2,208,250,621	.....2,138,055,960
	2.2    Premium Denominator.....	.....2,208,250,621	.....2,138,055,960
	2.3    Premium Ratio (2.1/2.2).....	.....100.0	.....100.0
	2.4    Reserve Numerator.....	.....304,620,753	.....334,409,961
	2.5    Reserve Denominator.....	.....304,620,753	.....334,409,961
	2.6    Reserve Ratio (2.4/2.5).....	.....100.0	.....100.0

- 3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits?

Yes [   ]      No [ X ]
- 3.2

If yes, give particulars:

- 4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [ X ]      No [   ]
- 4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [   ]      No [   ]
- 5.1

Does the reporting entity have stop-loss reinsurance?

Yes [   ]      No [ X ]

- 5.2

If no, explain:

Blue Care Network of Michigan participates in the BCN Stop-Loss & Casualty Self-Insurance Trust. Expiration date of 12/31/2009.

Unlimited coverage with a deductible of \$150,000. BCN accounts for the activity with the Trust as if it were re-insurance.
- 5.3

Maximum retained risk (see instructions):

5.31    Comprehensive medical

\$.....150,000

5.32    Medical only

\$.....0

5.33    Medicare supplement

\$.....0

5.34    Dental and vision

\$.....0

5.35    Other limited benefit plan

\$.....0

5.36    Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Hold harmless provisions are included in contracts with providers. Also, Blue Care Network of Michigan members have coversion rights to Blue Cross Blue Shield of Michigan coverage.

In addition, a State mandated cash deposit is maintained, along with Stop-Loss Self-Insurance coverage which includes an insolvency clause.

- 7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [ X ]      No [   ]
- 7.2

If no, give details:

8.

Provide the following information regarding participating providers:

8.1    Number of providers at start of reporting year

.....14,690

8.2    Number of providers at end of reporting year

.....16,484
- 9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [   ]      No [ X ]
- 9.2

If yes, direct premium earned:

9.21    Business with rate guarantees between 15-36 months

.....

9.22    Business with rate guarantees over 36 months

.....
- 10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [ X ]      No [   ]
- 10.2

If yes:

10.21    Maximum amount payable bonuses

\$.....44,351,108

10.22    Amount actually paid for year bonuses

\$.....40,211,003

10.23    Maximum amount payable withholds

\$.....11,583,461

10.24    Amount actually paid for year withholds

\$.....11,832,246

Blue Care Network of Michigan  
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes [ ]

No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [X]

No [ ]

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$.....89,421,553

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes [ ]

No [X]

11.6 If the amount is calculated, show the calculation:

4% of subscription revenue: \$2,235,538,837 x 4% = \$89,421,553

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
ALCONA
ALLEGAN
ALPENA
ANTRIM
ARENAC
BARRY
BAY
BENZIE
BERRIEN
CALHOUN
CASS
CHARLEVOIX
CHEBOYGAN
CLARE
CLINTON
CRAWFORD
EATON
EMMET
GENESEE
GLADWIN
GRAND TRAVERSE
GRATIOT
HILLSDALE
HURON
INGHAM
IONIA
IOSCO
ISABELLA
JACKSON
KALAMAZOO
KALKASKA
KENT
LAPEER
LEELANAU
LIVINGSTON
MACKINAC
MACOMB
MANISTEE
MIDLAND
MECOSTA
MONROE
MONTCALM
MONTMORENCY
MUSKEGON
NEWAYGO
OAKLAND
OCEANA
OGEMAW
OSCODA
OTSEGO
OTTAWA
PRESQUE ISLE
ROSCOMMON
SAGINAW
SHIAWASSEE
ST. CLAIR
ST. JOSEPH
TUSCOLA
VAN BUREN
WASHTENAW
WAYNE
WEXFORD

13.1 Do you act as a custodian for health savings account?

Yes [ ]

No [X]

13.2 If yes, please provide the amount of custodial funds held as of the reporting date.

.....

13.3 Do you act as an administrator for health savings accounts?

Yes [ ]

No [X]

13.4 If yes, please provide the balance of the funds administered as of the reporting date.

.....

Blue Care Network of Michigan  
FIVE-YEAR HISTORICAL DATA

	1 2009	2 2008	3 2007	4 2006	5 2005
<b>Balance Sheet Items (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 26).....	884,963,435	841,062,623	785,302,394	675,400,498	697,705,479
2. Total liabilities (Page 3, Line 22).....	468,352,202	504,322,800	541,192,674	480,664,858	384,682,565
3. Statutory surplus.....	89,421,553	86,006,399	86,506,608	81,581,202	57,673,083
4. Total capital and surplus (Page 3, Line 31).....	416,611,233	336,739,823	244,109,720	194,735,640	313,022,914
<b>Income Statement Items (Page 4)</b>					
5. Total revenues (Line 8).....	2,208,872,196	2,141,451,384	2,151,856,958	2,034,388,600	1,439,429,414
6. Total medical and hospital expenses (Line 18).....	1,941,215,059	1,847,780,998	1,860,555,662	1,752,212,012	1,154,101,893
7. Claims adjustment expenses (Line 20).....	78,639,623	76,492,030	88,186,400	78,326,005	70,738,036
8. Total administrative expenses (Line 21).....	154,592,002	164,185,796	186,850,646	196,840,660	152,537,245
9. Net underwriting gain (loss) (Line 24).....	34,425,512	52,992,560	16,264,250	7,009,923	62,052,240
10. Net investment gain (loss) (Line 27).....	36,906,011	32,782,116	33,670,167	74,212,796	16,488,247
11. Total other income (Lines 28 plus 29).....	(8,736,640)	6,974	(56,102)	(149,005)	(92,237)
12. Net income or (loss) (Line 32).....	62,769,309	85,590,267	49,846,840	81,042,173	78,396,434
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11).....	(51,394,350)	38,366,196	99,078,240	94,496,060	66,542,404
<b>Risk-Based Capital Analysis</b>					
14. Total adjusted capital.....	416,611,233	336,739,823	244,109,720	194,735,640	313,022,914
15. Authorized control level risk-based capital.....	73,389,221	68,061,313	64,828,930	60,723,694	41,176,565
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7).....	525,226	554,666	626,403	646,699	452,163
17. Total member months (Column 6, Line 7).....	6,367,506	6,700,008	7,564,671	7,625,979	5,398,464
<b>Operating Percentage (Page 4)</b> <b>(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0</b>					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19). .....	87.7	86.2	86.4	86.0	80.1
20. Cost containment expenses.....	2.3	2.4	2.8	2.7	3.6
21. Other claims adjustment expenses.....	1.3	1.2	1.3	1.2	1.3
22. Total underwriting deductions (Line 23).....	98.2	97.4	99.2	99.5	95.6
23. Total underwriting gain (loss) (Line 24).....	1.6	2.5	0.8	0.3	4.3
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
24. Total claims incurred for prior years (Line 13 Col. 5).....	311,380,433	317,322,851	279,729,416	255,602,392	206,932,230
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)] .....	321,276,414	342,496,829	309,836,682	284,284,770	250,114,424
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 18, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 24, Col. 1).....	8,813,502	7,467,049	6,854,565	289,294	
29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....	81,070,778	72,830,243	70,835,625	67,828,768	56,008,811
32. Total of above Lines 26 to 31.....	89,884,280	80,297,292	77,690,190	68,118,062	56,008,811

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain:

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
State, Etc.		Active Status	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1.	Alabama.....AL	N.....							.....0	
2.	Alaska.....AK	N.....							.....0	
3.	Arizona.....AZ	N.....							.....0	
4.	Arkansas.....AR	N.....							.....0	
5.	California.....CA	N.....							.....0	
6.	Colorado.....CO	N.....							.....0	
7.	Connecticut.....CT	N.....							.....0	
8.	Delaware.....DE	N.....							.....0	
9.	District of Columbia.....DC	N.....							.....0	
10.	Florida.....FL	N.....							.....0	
11.	Georgia.....GA	N.....							.....0	
12.	Hawaii.....HI	N.....							.....0	
13.	Idaho.....ID	N.....							.....0	
14.	Illinois.....IL	N.....							.....0	
15.	Indiana.....IN	N.....							.....0	
16.	Iowa.....IA	N.....							.....0	
17.	Kansas.....KS	N.....							.....0	
18.	Kentucky.....KY	N.....							.....0	
19.	Louisiana.....LA	N.....							.....0	
20.	Maine.....ME	N.....							.....0	
21.	Maryland.....MD	N.....							.....0	
22.	Massachusetts.....MA	N.....							.....0	
23.	Michigan.....MI	L.....	1,801,288,639	354,114,566		75,072,555			2,230,475,760	
24.	Minnesota.....MN	N.....							.....0	
25.	Mississippi.....MS	N.....							.....0	
26.	Missouri.....MO	N.....							.....0	
27.	Montana.....MT	N.....							.....0	
28.	Nebraska.....NE	N.....							.....0	
29.	Nevada.....NV	N.....							.....0	
30.	New Hampshire.....NH	N.....							.....0	
31.	New Jersey.....NJ	N.....							.....0	
32.	New Mexico.....NM	N.....							.....0	
33.	New York.....NY	N.....							.....0	
34.	North Carolina.....NC	N.....							.....0	
35.	North Dakota.....ND	N.....							.....0	
36.	Ohio.....OH	N.....							.....0	
37.	Oklahoma.....OK	N.....							.....0	
38.	Oregon.....OR	N.....							.....0	
39.	Pennsylvania.....PA	N.....							.....0	
40.	Rhode Island.....RI	N.....							.....0	
41.	South Carolina.....SC	N.....							.....0	
42.	South Dakota.....SD	N.....							.....0	
43.	Tennessee.....TN	N.....							.....0	
44.	Texas.....TX	N.....							.....0	
45.	Utah.....UT	N.....							.....0	
46.	Vermont.....VT	N.....							.....0	
47.	Virginia.....VA	N.....							.....0	
48.	Washington.....WA	N.....							.....0	
49.	West Virginia.....WV	N.....							.....0	
50.	Wisconsin.....WI	N.....							.....0	
51.	Wyoming.....WY	N.....							.....0	
52.	American Samoa.....AS	N.....							.....0	
53.	Guam.....GU	N.....							.....0	
54.	Puerto Rico.....PR	N.....							.....0	
55.	U.S. Virgin Islands.....VI	N.....							.....0	
56.	Northern Mariana Islands.....MP	N.....							.....0	
57.	Canada.....CN	N.....							.....0	
58.	Aggregate Other alien.....OT	XXX.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
59.	Subtotal.....	XXX.....	1,801,288,639	354,114,566	.....0	75,072,555	.....0	.....0	2,230,475,760	.....0
60.	Reporting entity contributions for Employee Benefit Plans.....	XXX.....	5,063,077						5,063,077	
61.	Total (Direct Business).....	(a).....1	1,806,351,716	354,114,566	.....0	75,072,555	.....0	.....0	2,235,538,837	.....0

DETAILS OF WRITE-INS									
5801.								.....0	
5802.								.....0	
5803.								.....0	
5898.	Summary of remaining write-ins for line 58.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
5899.	otal (Lines 5801 thru 5803 + 5898) (Line 58 above).....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0

Explanation of basis of allocation by states, premiums by state, etc.  
By Situs of contract

(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

**PART 1 – ORGANIZATIONAL CHART**

**SUBSIDIARY & AFFILIATE ORGANIZATION CHART**



A nonprofit corporation and independent licensee  
of the Blue Cross and Blue Shield Association

38

**BLUE CROSS BLUE SHIELD  
OF MICHIGAN**  
EIN 38-2069753  
NAIC 54291, Group 572

**Accident Fund Holdings,  
Inc.**  
EIN 27-0521030  
Group 572

**Accident Fund Insurance  
Company of America**  
EIN 38-3207001  
NAIC 10166  
Group 572

**United Wisconsin  
Insurance Company**  
d/b/a United Heartland  
EIN 39-0941450  
NAIC 29157,  
Group 572 WI

**Accident Fund General  
Insurance Company**  
EIN 20-3058200  
NAIC 12304, Group 572

**Accident Fund National  
Insurance Company**  
EIN 20-3058291  
NAIC 12305, Group 572

**Third Coast Insurance  
Company**  
EIN 36-4072992  
NAIC 10713,  
Group 572 IL

**CWI Holdings, Inc.**  
EIN 52-2414206  
NAIC 12177,  
Group 572 DE

**CWI Holdings 2006  
Statutory Trust I**  
EIN 32-6057193  
NAIC 12177,  
Group 572 DE

**Howard Street Insurance  
Services**  
EIN 72-1615795  
NAIC 12177,  
Group 572 CA

**CompWest Insurance Co.**  
EIN 20-1117107  
NAIC 12177,  
Group 572 CA

**LifeSecure Holdings  
Corporation**  
EIN 20-1420821

**LifeSecure Insurance  
Company**  
EIN 75-0956156  
NAIC 77720, Group 572

**Blue Care Network  
of Michigan**  
EIN 38-2359234  
NAIC 95610, Group 572

**BCN Service  
Company**  
EIN 38-3134881

**BlueCaid of Michigan**  
EIN 32-0026448  
NAIC 11557, Group 572

**Blue Care of Michigan,  
Inc.**  
EIN 38-2536979  
NAIC 52037, Group 572

**Blue Cross and  
Blue Shield of  
Michigan Foundation**  
EIN 38-2338506

Blue Care Network\*  
Medical Malpractice  
Self-Insurance Trust  
EIN 38-6561861

Blue Care Network\*  
Stop-Loss and Casualty  
Self-Insurance Trust  
EIN 38-6561862

\* Blue Care Network of Michigan participates in these Trusts for self-insurance purposes.

All entities that do not reflect a particular state abbreviation are domiciled in Michigan.

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